

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

NEWMARK HOMES CORP
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-23677

NEWMARK HOMES CORP.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0460831
(I.R.S. Employer
Identification No.)

1200 Soldiers Field Drive
Sugar Land, Texas 77479
(Address of principal executive offices) (ZIP code)

(281) 243-0100

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last
report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents
and reports required to be filed by Section 12, 13 or 15(d) of the Securities
Exchange Act of 1934 subsequent to the distribution of securities under a plan
confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| | |
|--------------------------------|--|
| Title | Outstanding |
| Common Stock, par value \$0.01 | 11,500,000 shares as of September 30, 2001 |

NEWMARK HOMES CORP.

INDEX

PART I. Financial Information.....

ITEM 1. Financial Statements.....

Condensed Consolidated Statements of Financial Position.....

Condensed Consolidated Statements of Operations.....

Condensed Consolidated Statements of Cash Flows.....

Notes to the Condensed Consolidated Financial Statements.....

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....

ITEM 3. Changes in Information about Market Risk.....

PART II. Other Information.....

ITEM 1. Legal Proceedings.....

ITEM 2. Changes in Securities.....

ITEM 3. Defaults Upon Senior Securities.....

ITEM 4. Submission of Matters to a Vote of Security Holders.....

ITEM 5. Other Information.....

ITEM 6. Exhibits and Reports on Form 8-K.....

Exhibits.....

Reports on Form 8-K.....

Signatures.....

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWMARK HOMES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| ASSETS | SEPTEMBER 30, 2001 (unaudited) | D |
|---|-----------------------------------|-------|
| Cash..... | \$ 8,636 | |
| Receivables..... | 14,526 | |
| Inventory..... | 267,311 | |
| Investment in unconsolidated subsidiaries..... | 2,467 | |
| Other assets, net..... | 14,354 | |
| Goodwill, net of accumulated amortization of \$2,749 and \$1,594 in 2001 and 2000, respectively..... | 44,199 | |
| | ----- | ----- |
| Total Assets..... | \$351,493 | ----- |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Construction loans payable..... | \$142,581 | |
| Acquisition notes payable..... | 7,370 | |
| Other payables to affiliates..... | 679 | |
| Accounts payable and accrued liabilities..... | 31,178 | |
| Other liabilities..... | 21,463 | |
| | ----- | ----- |
| Total Liabilities..... | \$203,271 | |
| Minority interest in consolidated subsidiaries..... | 99 | |
| Stockholders' equity | | |
| Common stock--\$0.01 par value; 30,000,000 shares authorized, 11,500,000 shares issued and outstanding..... | 115 | |
| Additional paid-in capital..... | 106,855 | |
| Retained earnings..... | 41,153 | |
| | ----- | ----- |
| Total stockholders' equity..... | 148,123 | ----- |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$351,493 | ===== |
| | ===== | ===== |

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| | 2001 |
|---|------------|
| | ---- |
| Revenues..... | \$163,011 |
| Cost of sales..... | 132,761 |
| | ----- |
| Gross profit..... | 30,250 |
| Equity in earnings from unconsolidated subsidiaries..... | 462 |
| Selling, general and administrative expenses..... | (18,705) |
| Depreciation and amortization..... | (1,306) |
| | ----- |
| Operating income..... | 10,701 |
| Other income (expense): | |
| Interest expense..... | (453) |
| Other income, net..... | 125 |
| | ----- |
| Income before income taxes..... | 10,373 |
| Income taxes..... | 3,665 |
| | ----- |
| Net income..... | \$ 6,708 |
| | ===== |
| Earnings per common share: | |
| Basic and Diluted..... | \$0.58 |
| | ===== |
| Weighted average number of shares of common stock equivalents outstanding: | |
| Basic and Diluted..... | 11,500,000 |
| | ===== |

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

4

NEWMARK HOMES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

| | NINE MONTHS ENDED SEPTE |
|---|-------------------------|
| | ----- |
| | 2001 |
| | ---- |
| Revenues..... | \$451,391 |
| Cost of sales..... | 366,145 |
| | ----- |
| Gross profit..... | 85,246 |
| Equity in earnings from unconsolidated subsidiaries..... | 793 |
| Selling, general and administrative expenses..... | (51,700) |
| Depreciation and amortization..... | (3,776) |
| | ----- |
| Operating income..... | 30,563 |

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| | | |
|---|--|------------|
| Other income (expense): | | |
| Interest expense..... | | (2,081) |
| Other income, net..... | | 346 |
| Minority interest in consolidated subsidiaries..... | | (99) |
| | | ----- |
| Income before income taxes..... | | 28,729 |
| Income taxes..... | | 9,705 |
| | | ----- |
| Net income..... | | \$19,024 |
| | | ===== |
| Earnings per common share: | | |
| Basic and Diluted..... | | \$1.65 |
| | | ===== |
| Weighted average number of shares of common stock equivalents outstanding: | | |
| Basic and Diluted..... | | 11,500,000 |
| | | ===== |

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

5

NEWMARK HOMES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

| | NINE MONTHS SEPTEMBER |
|--|--------------------------|
| | 2001 |
| | ----- |
| Cash flows from operating activities: | |
| Net income..... | \$ 19,024 |
| Adjustments to reconcile net income to net cash provided by (used) in operating activities: | |
| Depreciation and amortization..... | 3,776 |
| Net loss (gain) on sale of property, premises and equipment..... | 23 |
| Equity in earnings from unconsolidated subsidiaries..... | (793) |
| Minority interest in consolidated subsidiaries..... | 99 |
| Changes in operating assets and liabilities: | |
| Inventory and land held for development, net..... | (20,446) |
| Receivables..... | 253 |
| Other assets..... | (3,031) |
| Payable to affiliates..... | (21) |
| Accounts payable and accrued liabilities..... | (2,659) |
| Other liabilities..... | 5,766 |
| | ----- |
| Net cash provided by (used) in operating activities..... | 1,991 |
| Cash flows from investing activities: | |
| Purchases of property, premises and equipment..... | (4,091) |
| Proceeds from sales of property, premises and equipment..... | 292 |

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| | |
|---|-----------|
| Additional acquisition costs..... | --- |
| Investment in unconsolidated subsidiaries..... | (290) |
| Distributions from unconsolidated subsidiaries..... | 821 |
| | ----- |
| Net cash used in investing activities..... | (3,268) |
| Cash flows from financing activities: | |
| Proceeds from advances on construction loans payable..... | 212,257 |
| Principal payments on construction loans payable..... | (197,223) |
| Principal payments on acquisition notes payable..... | (3,685) |
| Dividends paid..... | 6,210 |
| | ----- |
| Net cash provided by financing activities..... | 5,139 |
| | ----- |
| Increase (decrease) in cash..... | 3,862 |
| Cash, beginning of period..... | 4,774 |
| | ----- |
| Cash, end of period..... | \$ 8,636 |
| | ===== |
| Supplemental disclosures of cash flow information: | |
| Cash paid for: | |
| Interest..... | \$ 9,165 |
| | ===== |
| Income taxes..... | \$10,069 |
| | ===== |

SEE ACCOMPANYING NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

ORGANIZATION

Newmark Homes Corp. and subsidiaries (the "Company") is an 80% owned subsidiary of Technical Olympic USA, Inc. ("TOUSA"). On December 15, 1999, TOUSA acquired 80% of the Company in a stock purchase transaction. The Company was formed in December 1994 to serve as a real estate holding company.

The Company's primary subsidiaries are as follows:

| SUBSIDIARY ----- | NATURE OF BUSINESS ----- |
|---|---|
| Newmark Homes Corporation ("Newmark")..... | Single-family residential homebuilding Tennessee and North Carolina - former |
| Westbrooke Companies, Inc. ("Westbrooke")..... | Single-family residential homebuilding lot developer in South Florida - former |
| Pacific United Development Corporation ("PUDC")..... | Residential lot development in Texas formed in 1993 |

BASIS OF PRESENTATION

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

The consolidated financial statements include the accounts of the Company and its subsidiaries. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States and general practices within the homebuilding industry. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

INTERIM PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company and are unaudited. Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States have been omitted from the accompanying statements. The Company's management believes the disclosures made are adequate to make the information presented not misleading. However, the financial statements included as part of this 10-Q filing should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2000 Annual Report on Form 10-K. The accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring items that, in the opinion of the management of the Company, are considered necessary for a fair presentation of the financial position, results from operations and cash flows for the periods presented. Results of operations achieved through September 30, 2001 are not necessarily indicative of those which may be achieved for the year ended December 31, 2001.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon

7

adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

initially recognized.

The Company's previous business combinations were accounted for using the purchase method. As of September 30, 2001, the net carrying amount of goodwill is \$44.2 million. Amortization expenses during the nine-month period ended September 30, 2001 was \$1.2 million. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will impact its financial position and results of operation.

EARNINGS PER SHARE

Basic Earnings Per Share is computed by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted Earnings Per Share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table reconciles the computation of basic and diluted Earnings Per Share for the three months ended September 30, 2001 and 2000 and for the nine months ended September 30, 2001 and 2000 (in thousands, except per share amounts):

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER30, | |
|--|-------------------------------------|---------|-----------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| Income available to common shareholders (numerator)..... | \$6,708 | \$5,655 | \$19,024 | \$17,558 |
| Weighted average of shares outstanding (denominator)..... | 11,500 | 11,500 | 11,500 | 11,500 |
| Basic and Diluted Earnings Per Share..... | \$0.58 | \$0.49 | \$1.65 | \$1.53 |

RECLASSIFICATION

Certain reclassifications have been made to conform the prior year's amounts to the current year's presentation.

NOTE 2. INVENTORY

Inventory balances as of September 30, 2001 and December 31, 2000 consist of the following:

| NUMBER OF HOMES | | SEPTEMBER 2001 |
|-----------------------|----------------------|-------------------|
| SEPTEMBER 30, 2001 | DECEMBER 31, 2000 | |
| | | |

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| | | | |
|-------------------------|-------|-------|--------|
| Completed..... | 158 | 178 | \$35, |
| Under Construction..... | 976 | 824 | 144, |
| Models..... | 80 | 73 | 17, |
| Residential Lots..... | -- | -- | 70, |
| | ----- | ----- | ----- |
| Total..... | 1,214 | 1,075 | \$267, |
| | ===== | ===== | ===== |

NOTE 3. CAPITALIZED INTEREST

A summary of interest capitalized in inventory is as follows (in thousands):

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| Interest capitalized, beginning of period..... | \$6,241 | \$6,852 | \$6,917 | \$6,266 |
| Interest incurred..... | 2,389 | 3,832 | 8,827 | 11,726 |
| Less interest included in: | | | | |
| Costs of Sales..... | 2,783 | 2,534 | 8,269 | 8,253 |
| Other income (expense)..... | 453 | 798 | 2,081 | 2,387 |
| | ----- | ----- | ----- | ----- |
| Interest capitalized, end of period..... | \$5,394 | \$7,352 | \$5,394 | \$7,352 |
| | ===== | ===== | ===== | ===== |

NOTE 4. COMMITMENTS AND CONTINGENCIES

The Company is subject to certain pending or threatened litigation and other claims. Management, after review and consultation with legal counsel, believes the Company has meritorious defenses to these matters and that any potential liability from these matters would not materially affect the Company's consolidated financial statements.

NOTE 5. CONSOLIDATED JOINT VENTURES

The Company acquired a 75% interest in Silver Oak Trails, L.P., a land development joint venture for a net initial investment of \$2.9 million. The operations of Silver Oak Trails, L.P. are consolidated with the operations of the Company. Silver Oak Trails, L.P. earned \$0.4 million of which \$0.1 million is minority interest in the earnings on a land sale transaction during the nine months ending September 30, 2001.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such matters involve risks and uncertainties, including the Company's exposure to certain market risks, changes in economic conditions, tax and interest rates, increases in raw material and labor costs, weather conditions, and general competitive factors that may cause

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

actual results to differ materially.

RESULTS OF OPERATIONS

The following tables set forth certain operating and financial data for the Company:

| | NEW SALES CONTRACTS, NET OF CANCELLATIONS | | THR S |
|---------------------------------------|--|------|----------|
| | THREE MONTHS ENDED SEPTEMBER 30, | | |
| | 2001 | 2000 | |
| Houston..... | 133 | 177 | |
| Austin..... | 58 | 76 | |
| Dallas/Fort Worth..... | 21 | 40 | |
| San Antonio..... | 15 | 21 | |
| Fort Lauderdale/Palm Beach/Miami..... | 213 | 280 | |
| Nashville..... | 16 | 23 | |
| Charlotte..... | 6 | 4 | |
| Greensboro/Winston-Salem..... | 8 | 13 | |
| Total..... | 470 | 634 | |

| | NEW SALES CONTRACTS, NET OF CANCELLATIONS | | HOME CLOSINGS | |
|---------------------------------------|--|-------|------------------------------------|-------|
| | NINE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
| | 2001 | 2000 | 2001 | 2000 |
| Houston..... | 491 | 509 | 415 | 461 |
| Austin..... | 248 | 425 | 369 | 448 |
| Dallas/Fort Worth..... | 93 | 125 | 115 | 108 |
| San Antonio..... | 67 | 41 | 54 | 28 |
| Fort Lauderdale/Palm Beach/Miami..... | 749 | 701 | 592 | 593 |
| Nashville..... | 93 | 76 | 85 | 67 |
| Charlotte..... | 19 | 12 | 11 | 8 |
| Greensboro/Winston-Salem..... | 18 | 25 | 19 | 22 |
| Total..... | 1,778 | 1,914 | 1,660 | 1,735 |

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

| | AS A PERCENTAGE OF REVENUE | | AS A PERCENTAGE OF REVENUE | |
|--|------------------------------------|-------|-----------------------------------|-------|
| | THREE MONTHS ENDED SEPTEMBER 30 | | NINE MONTHS ENDED SEPTEMBER 30 | |
| | 2001 | 2000 | 2001 | 2000 |
| Costs of Sales..... | 81.4% | 81.8% | 81.1% | 82.5% |
| Gross Profit..... | 18.6% | 18.2% | 18.9% | 17.5% |
| Selling, general and administrative expenses..... | 11.5% | 11.2% | 11.5% | 10.4% |
| Income before income taxes..... | 6.4% | 6.1% | 6.4% | 6.1% |
| Income taxes (1)..... | 35.3% | 36.1% | 33.8% | 36.1% |
| Net income..... | 4.1% | 3.9% | 4.2% | 3.9% |

(1) As a percent of income before income taxes.

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED
SEPTEMBER 30, 2000

Revenues increased by 11.5% to \$163.0 million in the three months ending September 30, 2001 from \$146.2 million in the three months ending September 30, 2000 due to the net effect of an increase in units closed and a slight decrease in the average selling price. The number of homes closed by the Company increased by 15.6% to 623 homes in the three months ending September 30, 2001 from 539 homes in the three months ending September 30, 2000. The Company's average selling price of homes closed in the three months ending September 30, 2001 was \$260,229, a decrease of 3.1% from the \$268,463 average selling price in the three months ending September 30, 2000 due to product mix within the

10

subdivisions closing homes. The average selling price of a Newmark(R) home closed in the three months ending September 30, 2001 was \$294,935, a decrease of 0.3% from the \$295,757 average selling price in the three months ending September 30, 2000. The Fedrick, Harris Estate Homes average selling price of homes closed in the three months ending September 30, 2001 was \$498,132, a decrease of 2.0% from the \$508,155 average selling price in the three months ending September 30, 2000. In the South Florida market, Westbrooke's average selling price of homes closed in the three months ending September 30, 2001 was \$208,792, an increase of 1.1% from the \$206,598 average selling price in the three months ending September 30, 2000. In addition, revenue from land sales in the three months ending September 30, 2001 decreased to \$0.9 million from \$1.5 million in the three months ending September 30, 2000.

New net sales contracts decreased 25.9% to 470 homes for the three months ended September 30, 2001 from 634 homes for the three months ended September 30, 2000 due to the general economic conditions of the markets the Company is operating in. The dollar amount of new net sales contracts decreased 24.9% to \$120.1 million.

The Company was operating in 78 subdivisions at September 30, 2001 compared to 77 subdivisions at September 30, 2000. As of September 30, 2001, the Company's

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

backlog of sales contracts was 963 homes, an 18.2% decrease from comparable figures at September 30, 2000.

Cost of sales increased by 11.0% to \$132.8 million in the three months ended September 30, 2001 from \$119.6 million in the comparable period of 2000. The increase was attributable to the increase in revenues as described above. Cost of land sales for the three months ended September 30, 2001 decreased to \$0.8 million from \$1.3 million for the comparable period of 2000. As a percentage of revenues, cost of sales for the three months ended September 30, 2001 decreased to 81.4% in 2001 from 81.8% in 2000.

Selling, general and administrative ("SG&A") expense increased by 14.4% to \$18.7 million in the three months ended September 30, 2001, from \$16.4 million in the comparable period of 2000. The increase is primarily due to increased selling and marketing expenses associated with the increased revenues. As a percentage of revenues, SG&A expense increased to 11.5% in the three months ended September 30, 2001 from 11.2% in the comparable period of 2000.

Interest expense, net of interest capitalized, decreased by 43.3% to \$0.5 million in the three months ended September 30, 2001 from \$0.8 million in the comparable period of 2000. The Company follows a policy of capitalizing interest only on inventory under construction or development. During the three months ended September 30, 2001 and 2000, the Company expensed a portion of interest incurred and other financing costs on those completed homes held in inventory. This expense decreased due to the decrease in the average number of completed homes held in inventory for the quarter ending September 30, 2001 and the decrease in interest rates on construction financing. However, this decrease was offset by the increase in interest on certain acquisition notes pursuant to the Second Amendment to Stock Purchase Agreement and the related Amended and Restated Note Agreements. Capitalized interest and other financing costs are included in cost of sales at the time of home closings.

The Company's provision for income taxes decreased as a percentage of earnings before taxes to 35.3% for the three months ending September 30, 2001 compared to 36.1% for the three months ending September 30, 2000. The decrease was primarily a result of decreased state taxes resulting from credits earned due to the deconsolidation from combined Florida State reporting. The Company recognized federal income tax expense amounting to \$3.5 million for the three months ending September 30, 2001 compared to \$3.0 million for the three months ending September 30, 2000.

Net income increased by 18.6% to \$6.7 million in the three months ended September 30, 2001, from \$5.7 million in the comparable period of 2000. The increase was attributable to the increase in revenues in the Company's most profitable markets.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

Revenues decreased by 0.8% to \$451.4 million in the nine months ending September 30, 2001 from \$447.7 million in the nine months ending September 30, 2000 due to the net effect of a decrease in units closed, an increase in the average selling price and an increase in land sales. The number of homes closed by the Company decreased by 4.3% to 1,660 homes in the nine months ending September 30, 2001 from 1,735 homes in the nine months ending September 30, 2000. The Company's average selling

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

price of homes closed in the nine months ending September 30, 2001 was \$264,243, an increase of 3.4% from the \$255,529 average selling price in the nine months ending September 30, 2000 due to product mix within the subdivisions closing homes. The average selling price of a Newmark(R) home closed in the nine months ending September 30, 2001 was \$295,229, an increase of 4.3% from the \$282,992 average selling price in the nine months ending September 30, 2000. The Fedrick, Harris Estate Homes average selling price of homes closed in the nine months ending September 30, 2001 was \$485,801, an increase of 1.7% from the \$477,603 average selling price in the nine months ending September 30, 2000. In the South Florida market, Westbrooke's average selling price of homes closed in the nine months ending September 30, 2001 was \$208,345, an increase of 2.8% from the \$202,641 average selling price in the nine months ending September 30, 2000. In addition, revenue from land sales in the nine months ending September 30, 2001 increased to \$12.7 million from \$4.3 million in the nine months ending September 30, 2000.

New net sales contracts decreased 7.1% to 1,778 homes for the nine months ended September 30, 2001 from 1,914 homes for the nine months ended September 30, 2000. The dollar amount of new net sales contracts decreased 5.0% to \$466.8 million.

Cost of sales decreased by 0.8% to \$366.1 million in the nine months ended September 30, 2001 from \$369.1 million in the comparable period of 2000. The decrease was attributable to the decrease in revenues as described above. Cost of land sales for the nine months ended September 30, 2001 increased to \$9.7 million from \$3.9 million for the comparable period of 2000. As a percentage of revenues, cost of sales for the nine months ended September 30, 2001 decreased to 81.1% in 2001 from 82.5% in 2000.

Selling, general and administrative ("SG&A") expense increased by 10.7% to \$51.7 million in the nine months ended September 30, 2001, from \$46.7 million in the comparable period of 2000 principally due to increased employee compensation and related benefits. As a percentage of revenues, SG&A expense increased to 11.5% in the nine months ended September 30, 2001 from 10.4% in the comparable period of 2000.

Interest expense, net of interest capitalized, decreased by 12.8% to \$2.1 million for the nine months ended September 30, 2001 from \$2.4 million in the comparable period of 2000. The Company follows a policy of capitalizing interest only on inventory under construction or development. During the nine months ended September 30, 2001 and 2000, the Company expensed a portion of interest incurred and other financing costs on those completed homes held in inventory. This expense decreased due to the decrease in the average number of completed homes held in inventory for the nine months ending September 30, 2001 and the decrease in interest rates on construction financing. However, this decrease was offset by the increase in interest on certain acquisition notes pursuant to the Second Amendment to Stock Purchase Agreement and the related Amended and Restated Note Agreements. Capitalized interest and other financing costs are included in cost of sales at the time of home closings.

The Company's provision for income taxes decreased as a percentage of earnings before taxes to 33.8% for the nine months ending September 30, 2001 compared to 36.1% for the nine months ending September 30, 2000. The decrease was primarily a result of decreased state taxes resulting from credits earned due to the deconsolidation from combined Florida State reporting. The Company recognized federal income tax expense amounting to \$9.5 million for the nine months ending September 30, 2001 compared to \$9.5 million for the nine months ending September 30, 2000.

Net income increased by 8.4% to \$19.0 million in the nine months ended September 30, 2001, from \$17.6 million in the comparable period of 2000. The increase was attributable to the increase in revenues in the Company's most profitable

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

markets.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2001, the Company had available cash and cash equivalents of \$8.6 million. Inventories (including finished homes and construction in progress, developed residential lots and other land) at September 30, 2001 increased by \$21.3 million from \$246.7 million at December 31, 2000 due to a general increase in business activity. Because of increased land acquisitions and development, the Company's ratio of construction loans payable to total capital assets increased to 51.7% at September 30, 2001 from 50.5% at December 31, 2000. The equity to total assets ratio decreased during the nine

12

months to 42.0% at September 30, 2001 from 41.7% at December 31, 2000 primarily due to the dividends paid of \$6.2 million during the nine months ending September 30, 2001.

The Company's financing needs depend upon the results of its operations, sales volume, inventory levels, inventory turnover, and acquisitions. The Company has financed its operations through borrowings from financial institutions and through funds from earnings.

At September 30, 2001, the Company had lines of credit commitments for construction loans totaling approximately \$227.7 million, of which \$31.1 million was available to draw down.

The Company's growth requires significant amounts of cash. It is anticipated that future home construction, lot and land purchases and acquisitions will be funded through internally generated funds and new and existing borrowing relationships. The Company continuously evaluates its capital structure and, in the future, may seek to further increase secured debt and obtain additional equity to fund ongoing operations as well as to pursue additional growth opportunities.

Except for ordinary expenditures for the construction of homes and, to a limited extent, the acquisition of land and lots for development and sale of homes, at September 30, 2001, the Company had no material commitments for capital expenditures.

SEASONALITY AND QUARTER RESULTS

The homebuilding industry is seasonal, as generally there are more sales in the spring and summer months, resulting in more home closings in the fall. The Company operates in the Southwestern and Southeastern markets of the United States, where weather conditions are more suitable to a year-round construction process than other areas. The Company also believes its geographic diversity to be somewhat counter-cyclical, with adverse economic conditions associated with certain of its markets often being offset by more favorable economic conditions in other markets. The seasonality of school terms has an impact on the Company's operations, but it is somewhat mitigated by the fact that many of the Company's buyers at the higher end of the Company's price range, including Fedrick, Harris Estate Homes, no longer have children in school. As a result of these factors, among others, the Company generally experiences more sales in the spring and summer months, and more closings in the summer and fall months. Likewise, Westbrooke has experienced seasonality in its revenues, generally completing more sales in the spring and summer months and more closings in the fourth quarter.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

The Company historically has experienced, and in the future expects to continue to experience, variability in revenues on a quarterly basis. Factors expected to contribute to the variability include, among others: (i) the timing of home closings; (ii) the Company's ability to continue to acquire land and options on acceptable terms; (iii) the timing of receipt of regulatory approvals for the construction of homes; (iv) the condition of the real estate market and general economic conditions; (v) the cyclical nature of the homebuilding industry; (vi) prevailing interest rates and the availability of mortgage financing; (vii) pricing policies of the Company's competitors; (viii) the timing of the opening of new residential projects; (ix) weather; and (x) the cost and availability of materials and labor. The Company's historical financial performance is not necessarily a meaningful indicator of future results and the Company expects its financial results to vary from project to project and from quarter to quarter.

Although the Company's results for the nine months ended September 30, 2001 are comparable to results for the nine months ended September 30, 2000, the Company expects that certain of its home building markets (such as Austin, Texas) which contributed significantly to the Company's favorable results in fiscal 2000 and for the nine months ended September 30, 2001 may be softer in the fourth quarter of fiscal 2001. The Company cannot, at this time, determine the full impact on future home sales, revenues and income of the Company from any significant decline in these key markets.

ITEM 3. CHANGES IN INFORMATION ABOUT MARKET RISK

The Company is exposed to market risk primarily related to potential adverse changes in interest rates as discussed below. The Company does not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes. The Company's exposure to market risks is changes to interest rates related to the Company's construction loans. The interest rates relative to the Company's construction loans fluctuate with the prime and Libor lending rates, both upwards and downwards.

13

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of the Company's management, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial condition or results of operations of the Company.

Subsequent to the press release of the Company on March 6, 2001 of a possible merger of Engle Holdings Corp. with the Company, the Company was notified of the filing of two lawsuits, Case No. A431555; Barry Feldman v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, Georgios Stengos, Andreas Stengos, James M. Carr, William A. Hasler, Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp.; In the District Court, Clark County, Nevada; and Cause No. 2001-14194; Michael Gormley v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, Georgios Stengos, Andreas Stengos, James M. Carr, William A. Hasler, Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp; In the 80th Judicial District Court of Harris County, Texas, challenging any transaction between the Company and Engle Holdings as a violation of fiduciary duty. Given the fact that there is no transaction agreed to between the Company and Engle, the Company believes the lawsuits are without merit, and the Company intends to

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

vigorously defend itself and its directors.

ITEM 2. CHANGES IN SECURITIES

None. No disclosure required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None. No disclosure required

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2001 Annual Meeting of Shareholders of the Company was held on October 1, 2001. Proxies were solicited by the Company pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended to elect directors of the Company for the ensuing year. Proxies and shareholders present representing 10,942,519 shares of stock eligible to vote at the meeting, or 95.152 percent of the outstanding shares, were voted in connection with the election of directors. The following is a separate tabulation with respect to the vote for each nominee:

| NOMINEE | TOTAL VOTES FOR | TOTAL VOTES WITHHELD |
|---------------------|-----------------|----------------------|
| Constantine Stengos | 10,752,392 | 190,127 |
| Andreas Stengos | 10,868,200 | 74,319 |
| George Stengos | 10,752,392 | 190,127 |
| Yannis Delikanakis | 10,752,892 | 189,627 |
| Larry D. Horner | 10,878,319 | 64,200 |
| William A. Hasler | 10,878,319 | 64,200 |
| Michael J. Poulos | 10,878,319 | 64,200 |
| Lonnie M. Fedrick | 10,741,314 | 201,205 |
| James M. Carr | 10,741,314 | 201,205 |

ITEM 5. OTHER INFORMATION

None. No disclosure required.

14

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a.) Exhibits.

| Exhibit Number | Exhibit |
|----------------|---|
| ----- | ----- |
| 10.1 | Form of Indemnification Agreement effective March 1, 2001 |

(b) Reports on Form 8-K.

The registrant filed no reports on Form 8-K during the quarter ended September 30, 2001.

15

SIGNATURES

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEWMARK HOMES CORP.

November 13, 2001

By: /s/ Terry C. White

Terry C. White, Senior Vice President, Chief
Financial Officer, Treasurer and Secretary

16

INDEX TO EXHIBITS

EXHIBIT
NUMBER

DESCRIPTION

10.1 Form of Indemnification Agreement effective March 1, 2001